Press conference on U.S. Proposal to the WTO on Industrial and Consumer Tariffs
USTR Robert B. Zoellick and Commerce Secretary Don Evans
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EVANS
Thank you very much. Welcome everybody. Thanks for being here on this very important day. I think that once again we are demonstrating the President's leadership, to lead this world at a defining moment in the history of the world. And to lead this world into a world of peace and prosperity. I have traveled all across America and around the world in the last couple of years and I have a good sense of the challenges that we face here in our country, - economically. And a good sense of the challenges that the world faces. And having just returned from Africa, I certainly have a good sense of the human challenges that they face on that continent.

And so this is a part of the President's continuing bold leadership to create the right conditions; certainly here in this country for national security, homeland security, and economic security. And to lead toward creating the right conditions and the right environment in the free world, it is to lead this world towards one of peace and prosperity. This proposal that we are presenting today is about economic growth here in America. It is about continuing to improve the conditions for economic growth here and continuing to improve the conditions for jobs. It is also about continuing to improve the conditions for people all around the world. It does come at a very important time, it does demonstrate that America understands our responsibility to lead.

This proposal, I think, demonstrates, how seriously we take that responsibility. After traveling around the world and across America, I'm one whose convinced that the road to peace and prosperity and hope is a road of trade and economic development. Free trade creates new jobs, higher paying jobs here in America. It creates those new jobs for our workers, our businesses, farmers, ranchers.

Trade is not just about economics, as the President has said it's a moral imperative. It's about the foundation of democracy. It's about freedom. It's about social responsibility. It's about being a good citizen on this planet. It's about democratic capitalism as we call it. Free trade lifts people, it lifts entire nations. It lifts them up out of poverty. It improves standard of living, it improves quality of life for all mankind.

Ambassador Zoellick is going to go through the nuts and bolts of the proposal that we are advancing, but just to give you a few clues: the proposal amounts to an $18 billion-per-year tax cut for American consumers and families. Fully implemented, this proposal could increase the national income by some $95 billion or some $1600 for every American family of four, as we take advantage of the increased productivity that accompanies the expansion of world trade. The proposal would lift some 300 million people out of poverty by reducing tariffs to zero and effectively producing an additional $500 billion in income around the world. It also helps developing countries grow their manufacturing base in economies by reducing costs of exporting to other developing countries.
This proposal recognizes and honors the President's commitment to level the playing field for

American workers and American businesses and manufacturers. During the Trade Promotion Authority process we committed to our manufacturers that we would require reciprocal market acces in all future trade negotiations. This proposal seeks to fulfill that commitment. If you look at the chart that will be presented later, you will notice that we're asking our trade partners to reduce their tariffs to zero by the year 2015; reduce their tariffs to zero by 2015.

This proposal once and for all would achieve equitable access for America's goods and products, all around the world. Americans can and will compete against anyone in the world. We're the best competitors in the world, and we've paid at the office for over 50 years, in terms of opening our markets up to others around the world. Now its time for our trading partners to catch up, and that's what this chart will show.

This President is a free-trade President. He's also someone that you can trust, as he continues to deliver on his word. When he took office he said that he was going to level the playing field for American businesses. This proposal does exactly that. Provide greater opportunity for all Americans, a level playing field for America's workers. And it will continue to lead this world toward a world of peace and prosperity because as we have learned in our country, the greatest hope for lifting the world up out of poverty and increasing the quality of life, standard of living for people all around the world is through what we call democratic capitalism or creating the condition for workers to be innovators, which is an environment of competition. Create the environment of competition and freedoms all around the world and people will compete, they will be innovative. They will be ingenious. They will be inventive. Then you will see higher productivity, economic growth, higher standard of living, greater quality of life all around the world. Lead this world, a world for our children and our grandchildren that is a world that everybody wants to call home, and is a world of peace and prosperity.

So yes this is a bold proposal but it is the right one for this world at this moment. And the President can take this to lead. Thank you all very much.

ZOELLICK:
Well I'd like to thank all of you for joining us today. And I'd like to complement Don's remarks by starting to explain a little about how this proposal fits into America's broader trade strategy.

The President regained trade promotion authority about three months ago, ending eight years in which Presidents were without the authority to credibly negotiate trade agreements. And we've not wasted any time. In the past 100 days, we've completed the substance of a free trade agreement with Singapore and launched new negotiations with the five nations of the Central American Economic Community, the five nations of the Southern African Customs Union, Morocco and Australia. We're also closing in on the completion of a free trade agreement with Chile. Last month, we helped push forward the negotiations on a Free Trade Area of the Americas, keeping on target the idea of hemispheric free trade.

And it was one year ago, right before we moved TPA the first step through passage to the House, that we steered the global trade negotiations on track by launching the Doha Development Agenda in the WTO. The U.S. goal in Doha in the WTO negotiations is to move the world toward free trade in three key global markets: agriculture, services and goods for consumers and industries. This July, the United States advanced a bold agriculture proposal to substantially reduce and harmonize farm tariffs and subsidies on the path to eliminating all the barriers to agricultural trade. That same month, we made proposals to open up the services trade around the world, and by next March, we'll be responding to others' requests to free up the services trade.

Today, the United States is completing the triad of market access, the three core elements of global trade by outlining the simple and fair plan, to cut all tariffs on consumer and industrial goods to zero, by the 2015. We want turn every corner store into a duty-free shop. And these stores can be the outlets for nearly $6 trillion in duty-free goods and groceries worldwide. Now, I'll outline the plan and then explain how this duty-free world would benefit America's workers and businesses, the global economy, the developing world, and America's families and consumers.

Now here is the plan. In brief, we seek to completely eliminate tariffs on consumer and industrial goods within ten years. No exceptions, no peak tariffs, no residual high tariffs, our goal is total free trade. So I have some to help illustrate the proposal. And first I want to show you the inequitable pattern of tariffs on consumer and manufactured goods as well as on the raw material goods that exist today.

As this chart makes clear, the United States is far more open to imports of goods than most countries. And America also buys more from the rest of the world than any other nation. Last year we bought $1.2 trillion - that's trillion dollars -- of goods from around the world. Our average tariff -- 4 percent. And, indeed, on a trade-weighted basis, with preferences, it actually comes out to about 1.6. The average tariff around the world: 40 percent.

So this proposal would level the playing field, first by harmonizing disparate tariffs and then eliminating them altogether. And we envision this happening in a two-step process. The first phase would take place between the year 2005 and 2010. And during that time, WTO members would eliminate all tariffs on goods currently at or under 5 percent. And this step would completely eliminate tariffs on three-quarters of the goods imports into the United States, the European Union, and Japan in just five years. That's a 75 percent down payment.

By taking this step, we'd be giving a big boost to trade, both among the major industrialized nations and also between developing countries that are exporting to developed nations. Now, during this period of 2005 to 2010, countries could also eliminate tariffs in highly-traded-goods sectors such as environmental technologies or aircraft or construction equipment through the zero-for-zero initiatives that have been used in the past. And this would be with trade partners that would desire a greater level of openness more quickly.

And finally, for all other duties, so those above 5 percent or not in the zero-for-zero, we're proposing a tariff-equalizer formula which would bring all remaining non-agricultural tariffs down to 8 percent or less. And in order to achieve greater equity, of course, the higher tariffs would have to fall farther than the lower tariffs.
Now, the second phase of the U.S. proposal would be carried out between the years 2010 and 2015. During those five years, all WTO members would make equal annual cuts until their tariffs on goods are eliminated. And as a parallel process, we'll be tackling the non-tariff barriers that

are too often used as illegitimate covers for protectionism.

So in January, on schedule for the Doha negotiations, the United States will outline our WTO proposals for lowering these non-tariff barriers, and that'll be the companion piece to our comprehensive free-trade strategy. This would deal with topics like licensing or standards or the customs processes.

Now, the next chart shows how these two phases fit together, how phase one and phase two work over a 10-year time frame in which we'll achieve convergence at much lower levels on the road to zero.Now, as you can see, by the year 2010 we have the mid-point of the process, so countries that have currently high tariffs will still retain slightly higher barriers than low-tariff countries, but the gap will have been greatly narrowed. And then, over the second five years, we move to zero together.

So you see India. India's average tariff now is about 30 percent. That comes down, not quite as far as ours, but it comes down a long way; Brazil, about 12 or 13 percent; Korea, about seven and a half percent; the United States and EU together, about 4 percent. So by 2010, we use the formula to get close, and then we move to elimination by 2015.

Now, the U.S. proposal for duty-free trade in goods, when combined with the plan we already announced in agriculture, calls on all WTO members to eliminate tariffs on nearly $6 trillion goods and groceries worldwide. And here are the benefits.

First, the U.S. plan would benefit America's workers and businesses while leveling the global playing field. As Don said, tariffs are just a fancy word for taxes. And when taxes are cut, the economy grows. Economic growth brings meaningful gains to both U.S. workers and businesses. U.S. exports already support more than 12 million American jobs. And jobs supported by goods exports pay wages on average 13 to 18 percent higher than other jobs. The elimination of tariffs would push the number of good-paying export jobs even higher.

But also under our proposal, American companies will have access to the best available products from around the world at more competitive prices, because zero tariffs means the materials and equipment that are needed to produce America's expanding industrial output can be obtained at the lowest cost, and that spurs greater productivity and that spurs hiring more workers.

When American companies are free to compete, they export more. According to a University of Michigan study, the elimination of non-agricultural tariffs could immediately boost U.S. exports by $83 billion a year. And the gains would even be greater over time as American companies benefitted from expanded global competition.

Now, our goods proposal combines fairness with boldness. America's tariffs, as you saw on that first chart, are already about the world's lowest, averaging only 4 percent at a bound level compared to the WTO allowed average tariffs of 40 percent for the rest of the world.

Now, of course, what does this mean? It means American goods face a huge price markup around the world. So our plan would also level the playing field by reducing high foreign tariffs.

And our proposal would take tariffs most rapidly to zero in sectors where the United States does the most business.

That's the idea of zero-for-zero. America's dynamic high-tech sector, for example, depends on exports, with $189 billion in foreign sales last year. And overall, these highly-traded sectors represent 60 percent of U.S. goods exports.

Second, the U.S. plan would benefit the global economy. The World Bank estimates that if we could remove all barriers to the global goods trade, it would increase global incomes by $830 billion a year by 2015. To give you a sense of what $830 billion means, that's more than the current GDPs of India, Indonesia, Malaysia, and the Philippines combined.

Free trade in goods would also raise productive efficiency in all nations and promote the spread of the same competitive forces that have driven the unprecedented global growth over the past two decades.

Now, some people say, "Can you do this?" Well, look, keep in mind, about half of the global trade in goods is already duty-free under more than 200 preferential and free-trade agreements. So now it's time to build upon that current openness and to expand it globally, fulfilling, at long last, the vision of the founders of the GATT, in 1947, by setting the highest standard of economic openness.

Now, third, this proposal offers historic opportunities for developing countries. The World Bank has estimated that elimination of trade barriers on all goods and services and some related development measures could lift 300 million people out of poverty. You want to have a sense of reference? That's more than the total population of the United States. And developing countries could expect to see income gains of more than half a trillion dollars -- $500 billion from complete liberalization.

Now, because developing countries maintain some of the highest trade barriers, they stand to gain the most from duty-free trade. Indeed, the World Bank calculates that 65 percent of the benefits from liberalization would accrue to developing countries. Industrial goods also make up some 89 percent of developing-country exports.

So by focusing on this proposal, plus agriculture, we'd open up commercial opportunities for the developing world as never before. And under our plan, this wouldn't take forever, because 76 percent of developing-world exports would enter the United States duty-free within five years.

Now, it's also important to note that many of the gains from the U.S. goods proposal would not just flow from the United States lowering our already-low barriers, but also from the elimination of barriers that developing countries apply to each other's exports, the so-called south-south trade. So our plan to converge tariffs on the way to elimination offers the greatest and most rapid benefit possible to developing countries.

Take a look at this number here. What that tells you, that pie chart, is that the developing countries paid 70 percent of their tariffs to other developing countries. So we're happy to go to zero. That'll make the world a stronger and better economy. But a lot of the opportunity to be gained for developing-world exporters is by lowering barriers among developing countries.

Finally, Europe's proposal on goods would substantially benefit America's consumers and families. The U.S. proposal for a zero-tariff world is a major tax cut, and it benefits lower-income families the most. America's working families would save more than $18 billion per year on import taxes that they currently pay in the form of higher prices. Every shopping outlet in America, from the mall to the discount store to the small businessperson shop, would become a duty-free store.

The New Democrat think tank, the Progressive Policy Institute, pointed out that the top beneficiaries of tariff elimination would be low-income, single-parent families who pay a high percentage of their income on import taxes, more than other families do.

So if Congress is debating a tax cut, and we want to help those that need it the most, this is the way to do it, $18 billion in pocket, helping low-income families the most. Because of the dynamic, pro-competitive pro-business effects of slashing tariffs, America's national income would increase by an estimated $95 billion under this proposal. To again give you a reference point, that's a little bit less than 1 percent of America's GDP. Together with the tax-cut effect, that would mean, for an average family of four in America, they'd have an extra $1,600 a year in their pocket because they'd be paying less and because we'd have more open trade.

Now, what would this mean for the American family at the checkout counter? We asked Wal-Mart to put our plan to the test. So today I have with me Chuck Richards and Mr. C.P. Plante. C.P. works in the Wal-Mart store in Manassas. And we asked them to put together two baskets of goods. Now, both these baskets contain the same items.

Let me tell you a little bit what we've got here, so you can see as we approach the holiday season. (Laughter.) We've got pens. We've got pacifiers. We've got baby bottles. We've got disposable cameras. We've got flashlights. And America charges you 12 and a half percent on top of that price so you can show a little light in your family.

We've got deodorant. We've got men's sweaters. You want to have a warm sweater? It costs you an extra 17 percent today because of the taxes put on it. Men's dress shirts, girls' shoes, boys' shoes, baby outfits. You have a baby? You'd better be careful; today it's going to cost you an extra 31 percent to keep your baby warm because of the tariffs that are put on it.

We've got men's sports shirts, juicers, food choppers, those things I see on t.v. I'm always interested in; Christmas lights. You want to go out and put up some Christmas lights on your house? The government charges you an extra 8 percent for it. We've got back packs. We've got men's gloves. We've got vinyl wallets. But if you buy under this program, the vinyl wallet is going to take an extra 17 percent out of your wallet.

And then, all together, if you put these together, today you pay $202 for this. Under our duty-free plan, you pay $170. So that's $32 in savings. Do I have my math right? That's a 16 percent savings. So when I add that up, it's a heck of a price roll-back. And now we have everyday lower prices at Wal-Mart. (Laughter.)

So let me close with a point for people around the world. The United States helped lead the way a year ago in Doha to launch new global trade negotiations in the WTO because we wanted to boost world growth, but also development. Over the course of the past year, we've advanced some bold, very free-trading proposals in the three areas that drive world trade -- agriculture, services, and now industrial and consumer goods.

Our newest proposal is far-reaching. It's fair. It offers large benefits to the global economy. And it would complete an ambitious global project that has been 50 years in the making. Like the developing countries around the world, the United States puts its first emphasis on this three-part market-access agenda -- agriculture, goods and services. Let's get the basics right. That's what the GATT and now the WTO is all about.

And in proposing aggressive liberalization across the board, we hope that countries that are hanging back in one area or another -- say, some in agriculture -- will see the benefits if we all move forward together. So we hope that both developed and developing countries will now join with us to move forward boldly to accomplish this Doha agenda by the agreed deadline of 2005.

I'd be pleased to take your questions. Thank you.

Neil.

Q: Neil King, WSJ, difficulty in selling this? Why do you have confidence that this proposal will last through the Doha Round?

ZOELLICK:
Well Neil, I don't know if you've had a chance to cover Congress, I know you spent a lot of time doing foreign policy, but if you think we're giving a little, let me go ask you to talk to the members of Congress. Because eliminating all tariffs in the United States is not a little.

But here is the core concept as we put this together because it's a fair point, I know people will say: are you being to ambitious? Look at what we start out with. We've tried to put aggressive proposals forward in all three sectors, manufactured goods, agriculture, and services. Now some countries say let's move in services, but not agriculture, manufactured goods but not services, and frankly there are two very important countries that we know have to move on agriculture.

We thought this would help people move, because each piece of this proposal that we have, benefits others in particular ways. For example, the reduction in tariffs to 5 percent really will be very important for a lot of the industrialized economies to trade with one another. So we're partly trying to draw them in, saying, "See this is the benefit and we hope that you'll move." And again, recognize what the United States is doing, we're willing to eliminate all tariffs on all our goods.

Now, many of you who cover trade have covered the battle of apparel and textiles, and shoes and glassware - sensitive products. All the debate about tariff peaks and tariff escalation. Tariff escalations says, "Well we'll let in your raw materials, but when it comes time for the finished product, we won't take it." All that's gone.

Now in the meetings that I've had over the almost two years on the job, I hear a lot about these issues. Well, we know have an answer: Zero, and the United States moves faster and further than others.

In addition, keep in mind the benefit. We're buying $1.1 trillion of goods from around the world now. The United States represent, depending on exchange rates, about 20 to 25 percent of the world's gdp. So, as Don said, if the United States leads, and we're leading with 25 percent of the world's gdp, that's a deep boost to everybody in the global economy.

As I also mentioned in my remarks, if you actually look at all these preferential and free trade agreements, they cover about half the world's goods. Now in the goods trade, and that's why we're trying to achieve this first in the goods area, that was what the GATT first started to focus on some fifty years ago, in 1947. We've had seven rounds. We reduced tariffs to this point over seven rounds, now you have about half the trade free. Why not move the whole way?

You know I was also thinking about this because, as I've discussed this with some of my European colleagues who are always worried about the degree of ambition. And for them its particularly ironic because I was remembering, in 1988 when I was in the government, no one believed the Berlin wall could come down. In 1989, I was at the State Department, it came down and within ten months, I had the honor of being on the negotiating team that unified Germany. People said the Berlin wall would never come down. So if we can bring the Berlin wall down and unify Germany, Europeans and others should realize we can bring down some tariff walls and get the global economy going.

So my line to people that will say, "Oh you can't do it, you can't do it," is, let's not confuse obstructionism with realism. We're moving this way with individual countries, why can't we do it globally? And ultimately, my answer to people on this people will be: We're going to do it one way or the other. I'd like to do it globally, and I'm putting my money on the table. But if I can't do it globally, I'll do it piece by piece and then they can deal with that problem.

Yes sir.

Q - Africa News service: Farm bill. Why do you think you can sell this proposal to the rest of the world?

ZOELLICK:
Haven't you asked this question before?

(Laughter)

ZOELLICK:
Well, I'll turn your question around, if people complain about our farm program: we're offering to reduce the tariff levels down from an average of 12 to 5 percent, eliminate export subsidies, take $100 billion out of domestic subsidies. So, people can kvetch all they want, or they can take

us at our word and try to negotiate.

The farm bill as we've discussed before, has been nicely misrepresented by a lot of people who don't want to negotiate. The farm bill did not raise one tariff in the United States. It didn't change our export subsidies which total only $15 million while the EU totals $2 billion. And frankly, its within the WTO limits. So what we're saying is if you want to reduce the subsidy limits, we'll take them down. Under the Uruguay round we agreed to keep our cap, what they call the subsidies that affect domestic production, at $19.1 billion. We said we'd take that down to $10 billion. But under the same notion as we do here, we've got to take the Europeans, who have a cap of over $60 billion, and bring them down closer. And we didn't even insist they come down to the same level. Just as in this chart, we're saying others can stay above us, as we move on the road to elimination. But look, I put my money on the table, people can test if its serious.

On the political side, I'll give you one other answer. There should have been a telling message to the world in that we produced that agriculture proposal on July 25 (I remember that because its my birthday) and that was right before we got Trade Promotion Authority through the Congress. So we weren't afraid that Congress would vote us down in what we knew would be a close votes. We thought it would help us. Because what most American Congressman tell us in goods or others, is they say, "Look, we're willing to compete if others compete." And that chart I showed in the beginning, that's my challenge. People say they want us to cut our apparel tariffs – our average tariff is 4 percent overall. Theirs is 40. So the deal on the table is, we're the biggest buyer, look at where the goods in these packages come from. We'll buy your goods from Africa, but you got to give us a chance to sell our goods and that's only fair.

Q - Wouldn't this textile adversely affect textiles, textile area lawmakers

ZOELLICK:
I am glad that you asked that question, because no doubt, we've got some sensitive sectors here. What the textile and apparel industry said most of all to us is, we need a fair shot at reciprocity. Let me explain a little bit of the origin of that. The last full negotiation of the Uruguay Round finally eliminated the quotas that interfered with the apparel trade for some forty years. So at the end of 2004, there is no more quotas in the apparel trade. Our average apparel tariff is about 12.7 percent. Some countries that claim to be very competitive in apparel exports are up there at 30 or 40 or 50 or 60. So what our guys said to me is, look, we'll compete and we'll allow you to negotiate but can you at least get us down to an equal level?

And beyond that, what we also have to do is look at what's happened to some of the firms in this industry. The guys that have kept competitive are frankly investing the capital, they're developing the productivity. A lot of them are now moving to the textile side as opposed to the apparel side, because apparel would deal more with the sewing, and they want the ability to sell their yarn or their thread. The farmers want the ability to sell their cotton. And that is the key thing to keep in mind about this and why you get these big numbers from the World Bank and others. Trade is not a zero sum game. It is not a mercantilist game.

If we can get the efficiencies of our cotton farmers to somebody else who then uses the thread or we use the thread, somebody else can more efficiently sew the shirt, we could save 16 or 17 percent and you go buy your holiday gifts. Each step along the way it means that you are buying more, there is more jobs, there are more people working at Wal-Mart, there is more people producing those clothes, and that is how you get global growth. And so people in Africa, for example, that are afraid of lowering tariffs, who do you think that is hurt the most? People in Africa have to pay more for the goods that they are going to buy. So the reason why trade is frankly, a fun area, is that if you can get beyond the protectionist impulses, be a win-win venture, and that's what this shows.

Yes
Q - Sam Gilston, Washington Tariff and Trade Letter

ZOELLICK:
We're going to put you out of business, on the tariff part. (Laughter)
You're just going to be the Washington Trade letter. (Laughter)

Q - I was thinking about that as I walked in.

If you're successful, won't this impede your individual free trade agreements?

ZOELLICK:
Okay, there are two key parts to this. As I have emphasized over and over, we have a strategy of competitive liberalization, in other words as I have tried to explain to some of my economist friends who write nice books and sit in ivory towers, I got a 144 countries in this negotiation. And, if some of them wake up on the wrong side of the bed, they may just be obstinate. I don't want to close down trade liberalization if they wake up being obstinate or if they have got a political regime that says we prefer protectionism that forces our people to pay higher prices and helps us protect some group. So what I want to be able to say to them is, we are willing to move, on agriculture, goods, and services. And frankly, while we are trying to help our friends in European Union and Japan on the extra agenda, that is not the heart of our agenda. We are trying to focus on the dollars and cents economics. So if somebody does not want to move, I don't want to just say "Okay, we will just wait until you are ready." I want to go with those who are willing to move. And so there should be no doubt, particularly after this proposal and our agricultural proposal, we are willing to liberalize globally, but if they are not, I want to move ahead regionally and bilaterally.

Now there is a second piece. If you take a look at the agreements that we are developing, for example the one with Singapore. Singapore is already pretty free trade in terms of manufactured goods. A lot of people say, "What are you going to negotiate?" The international economy is getting more complicated, so we've developed some fantastic rules on copyrights and intellectual property. Frankly, a lot of them were updated for dealing with the problems of the digital economy which really did not exist in the time the Uruguay Round existed. We did the same thing in services. We did the same thing in terms of the some of the transshipment rules.

And in area after area, we are frankly breaking new ground. Now that has two benefits. One is, from what I have seen over time, some of the advances that we make in these agreements then get incorporated into the system. That fits right back in the strategy. Let's get the basics done:

agriculture, goods, services, and then let's move on to the other aspects of the agenda.

But there is the other side of it, is that for a lot of these countries, and if you look, other than Australia, most of them are developing countries, they see this as part of their overall reform plan. So if they want to fix their agricultural sectors, like in the case of Morocco, we can partly do that with them, I hope, over the course of a year. And this still has the 2005 target frame.

In addition, what is going to drive the world and many developing economies is capital goods. If you look at investment its Europe, the United States, and China. I just came back from Southeast Asia. The big story in Southeast Asia is $50 billion in foreign direct investment to China; Southeast Asia is $14 dollar, that is a flip from the past ten years.

A free trade agreement with the United States particularly because it is comprehensive, covers broader categories, becomes a good housekeeping seal of approval with businesses. Even take Australia as a developing economy, the business community there is partly interested in that free trade agreement because they see what is happening in business networks. They want to make sure, in terms of bench marking, in terms of productivity enhancement, in terms of use of information technology, that their boardrooms are linked with America's boardrooms. So what you are probably dealing with in a free trade agenda at the regional and bilateral point is development models in new areas where we can break new ground with those who want to be leaders with us, and frankly a deeper level of integration. And as I said it can help us get this done, that's another matter.

In the back:

Q - Paul Bluestein, WP, Dumping rules

ZOELLICK:
Well as I told my colleagues while we were in Sydney, the United States has been willing to negotiate across the board. And that was different from our predecessor. Now we believe there are reasons for those rules. And frankly, if you look around at the developing countries Paul, you will see a lot of the antidumping and countervailing rules are now being used with developing countries. Go look at the Mexican actions against China. Now there is a reason why this happens. And actually the Mexicans are using them against us too. If the people say, yes, we'll lower tariff, we'll remove barriers, but there are certain things that are not fair. So, for example, when a government subsidizes a business that's not fair. If WalMart had to compete with somebody that is getting a government check that is not fair. And that is why the system has created those rules. It is the same with the principle of dumping, those have been recognized for over a hundred years. I would point out I think, that the first dumping one started in Canada not in the United States.

So what we have said is, we are willing to negotiate those topics. We think frankly, that there are some improvements that need to be made in how others are applying those laws. You are going to see them increasingly used against the United States without the transparency, and the rigor, and other aspects of the process. We will work with others to make sure that the concepts and instruments of the unfair trade regime are working in the way that they should be working so that this has a benefit. So across the board, we've moved on the Doha agenda, where it would be trying to solve the last problem with TRIPs and compulsory licensing, whether it be with the dispute settlement system, we are there to negotiate.

And there is a real reason, that comes back to your point, Paul, because as you said, you are a cynical journalist. I am trying to be as transparent as we can to say that we are moving forward at every step. And this is where my job is different than your job: This isn't going to be just any negotiating proposal put forth in Geneva in early December, it is real, it's not just talk. And so if others want to engage with us, if they want to accept this proposal, we are bound to go along with it. We are not just puffing smoke here, this is an Administration, as Don said, "that believes in free trade and openness". But to do this we have to try and do it together, so I can't leave European farm subsidies at 60 billion and tell mine we have to move from 19. Who would think that is fair? Similarly with tariffs, if India wants us to lower our average apparel wear of 17.5 percent or 12.7 for apparel, and they are at a 100 and they think that they are competitive, well why is that fair?

Our guys will compete with anybody but we have to have a level playing field.

Q - Congressional Quarterly, Is there a political rationale for this timing?

ZOELLICK:
No, the a reason that we came out with this at the time that we did was that at Doha we set a schedule for moving forward on different things. Before Doha there was what is called a built-in agenda on services and agriculture. The real problem was that the European Union and some others would not move on agriculture if you didn't add more items. And I understood that. That is the whole concept of a fair balanced package.

So in Doha we put forward the whole agenda, and we put forth the schedule. And we are supposed to, during this time period, be putting forth our proposals on a goods market access because we are supposed to agree on the modalities, which is a technical term for how we make the cuts, between March and May of next year. We are supposed to agree on the agricultural modalities by March. So the Europeans just put forward their proposal just a couple of weeks ago. The New Zealanders have their own ambitious proposal, somewhat like ours, they just put forth their proposal. So what we are doing is according to the schedule.
Q - Inside U.S. Trade, two quick questions, impact on trucks sector, does the U.S. have tariff proclamation authority to implement this proposal?

ZOELLICK:
That is a technical question. One example of how we tried to build this to fit Trade Promotion Authority, going back to your earlier question on apparel, is that Congress said to us basically, "Go for zero for zero." And they gave the President the authority to eliminate all tariffs under 5 percent. So that pointed us in this direction. And then for other tariffs, the President only has the proclamation authority, which means the ability to do it on its own, to take a 50 percent cut.

To eliminate all of this, we have to go back to Congress, but we have always suspected that once we do our package, we'll take it back to Congress. And that is why we fought like the devil to get

TPA done, so we could bring it back for an up or down vote.

The U.S. trucks, have trucks for transport, pick-up trucks, the tariff is 25 percent. That is a good point. I have a lot of areas here: footwear 37 percent, drinking glasses-not crystal-32.3 percent. So yeah, we are willing to take cuts, but we've got to bring others along so that we can: (a) say if we are going to cut, we have to have the ability to export to others in a more fair fashion.

Q - AP, EU says its too ambitious, who is supporting you?

ZOELLICK:
We are just announcing this now and we will be moving it forward in December. So we will see what support we get. Its got some similarity to the [one from] New Zealand, which is a good free -trade nation.

Let me answer your question on the European Union. Look we are in a a stage in the process, where, anyone who suggests cutting tariffs, I'm for. Let's get moving in the right direction. So in contrast, our friends in Japan finally came forward with an agriculture proposal and they said, "The quota that we have for rice should be shrunk." I don't see that as constructive.

Now, I have a slide here on the European proposal compared with the U.S. proposal. See, you triggered it. Here's the difference. And this is a little complicated but let me show you. The blue on the left is the starting rate for tariffs, whatever the good. The EU proposal is the dark blue. And the U.S. proposal is the red.

So what the EU proposal does, its crafted in an interesting fashion. You can see it says, ok, they sold it as "compression". Well compression has an effect. Your brings down some of the top tariffs, so 50 comes down to 25, 20 to 12, 11 to 7 and half, 5 to 2.8 but you notice something, and this is a question about realism, a lot of the European tariffs are down at the lower end. So they're not offering as much as we're offering. We're offering to go to zero, as some of you have asked about sensitive sectors, that's not an easy sell.

So number one, they are trying to move in the right direction, I support that effort. And we're being bolder, that's not new, the United States is often bolder than the European Union. I wish I could get them to do something on agriculture! So, if we're going to move forward the round, and the Europeans want to cover investment, competition policy, and some of the other subjects that they have, we're not going to do it unless we deal with the core issues of [our taxes] and after all, that's were the money is. You're going to get savings for people doing this stuff, not by putting in a new competition policy.

Now, on the developing world, I know this is going to take some working with them, becuase frankly, they have a lot of high tariffs. But, here's to me the major selling points:

First, this component of reducing all tariffs of 5 percent or below. This is a major selling point, becuase in five years what this means is that for 75 percent of the goods trade for the United States, Europe, and Japan [tariffs] will be zero. Now that helps developed countries, that's also a big benefit for developing countries.

In addition, as I mentioned to one of the other questions, we had a big roe in Doha about whether the United States would accept the words "tariff peaks" wether we'll work on tariff peaks. Tariff peaks, they're gone. Tariff escalation, they're gone. So if you're an apparel producer, and a lot of devoloping countries are, this is a pretty good proposal. If you're a shoe producer, if you're all the goods that you need in the developing world to start to climb the ladder of development.

In addition, it is designed to try to give a longer time for phase-out to the developing world. Those lines do come down at a different slope. And if you think about it, it gives 13 years. I think it's possible to ask countries move to zero in thirteen years given these benefits. But the other part that we're going to have to help make the argument on is the fact that trade is not just about exports, its about imports. And if you look at some of the numbers I mentioned, you know lower prices don't only help people in America to buy at Wal-mart, they help people in the developing world too.

The World Bank has shown that we could remove these barriers there would be a $500 billion gain in the developing world. You talk about aid funds, that's a tremendous sum of money to go into pockets and three quarters of that comes from developing countries lowering their own barriers. And as I mentioned, when you combine that with the services trade, you could lift 300 million people out of poverty. That should be pretty attractive to people in the developing world.

On the export side, remember that chart I mentioned, 70 percent of the tariffs paid by developing country exports, they don't go to the U.S., the E.U., or Japan. They go to other developing countries. Do we want to have a trade flow system that is a new form of colonialism where all the trade goes to the United States or Europe or do we want to create some trade within the developing world?

This is why I've encouraged the Chinese free trade agreement with the ASEAN countries. Goodness knows, with a $400 billion trade deficit, the Untied States is buying from everybody. It would be nice if Japan or Europe would grow a little bit, but they won't and the Chinese are willing to take it on, I'm all for it.

In addition, we have other things in the Doha negotiations to try to assist countries in the transition. Let me give you an example. When I was in the Caribbean, I talked with some of the small island economies. For some of these economies, 50 percent of their budget revenue, comes from tariffs. So that's very unfortunate, because just as this example showed, you know whose paying the most for that? Not the wealthy people of those countries, but the poorer people. Becuase tariffs are a very regressive device, because they take more money out of the pockets of the people who are consuming. So if you're living from paycheck to paycheck, import taxes hit you harder than if you're only spending 5 to 10 percent of your paycheck on consumption.

So, at the end of the day, when we try to think about this, the question is: Is it fair to leave countries behind? And what we're offering is really a choice, and that's the heart of our whole strategy. We're willing to open our markets on goods, on agriculture, on services. We're being up-front. If countries think it's not realistic, if they want to putter along another way, well then don't expect me to open my apparel market which is get a tariff lower than others. And don't expect me to open the shoe market. But if they want to have access here, we've now given a blueprint to do so.

And if at the end of the day, those countries don't want to take it, I have a long list of countries that are willing to take it, and we'll work with them.

Q- Blair Pethel from Bloomberg, if everything goes zero-zero, you still have inequities in the global tax system, vat, etc. Will you harmonize that as well?

ZOELLICK:
We're going to get extremely wonkish here o.k.? (laughter)

There's a big debate about value-added taxes and how they're affected. This actually comes in with the concept of the foreign sales corporation. But in reality, let's just take an example, the value-added tax is simply a tax in many countries where you put an additional tax on the added value. It's like a sales tax.

Some people, because countries normally rebate that if you export, they say "Oh, it's an advantage." But there really isn't an advantage, because if a good made in Ireland has the rebated back, and then its sold in the United States. If its sold in a state that has a 2 percent sales tax, it pays 6 percent. If it competes with an American good, its paying the same 6 percent. And vice-versa for the United States that pay the same prices on the other side as you would pay in Europe. That's what we've agreed in international trade system. So you really don't get an advantage.

Now the other argument that some people have said, that said yes, but what it does is, that they could have lower corporate and income taxes because they get most of their revenue from value-added taxes. But if you look at it, that's not the case, taxes in Germany and France, I think Britain too, are actually higher than our taxes.

So, without getting into too long of an economic discussion here, I've got my chief economist Dave Walters here somewhere, he'll talk to you afterwards. I don't really think that argument holds water that way. But as another matter, the WTO is really not a place to be negotiating taxes. We believe that countries should set their own tax policies. Obviously the Bush administration believes that lower taxes means more jobs, higher productivity, greater growth, greater investment in the United States. And by and large, that has been the U.S. philosophy versus others and that's one reason why, even in a slow-down, we growing more than Europe or Japan. So that should be left to a national decision.

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